



**UNIVERSITI PUTRA MALAYSIA**

**A Case Study on  
STAR PUBLICATIONS (M) BHD  
Next Course of Action**

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**GSM 1999 38**

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Next Course of Action**

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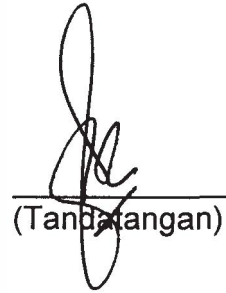
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### **Pengesahan Keaslian Laporan**

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# Part A

## A Case Study on Star Publications (M) Bhd

## 1.0 INTRODUCTION

### 1.1 The Scenario

Star Publications (M) Berhad (SPMB) was established in 1971. The organisation had engaged itself in printing and publishing business. An English language daily – The Star was the core business and later the firm ventured into printing and publishing magazines ranging from business to entertainment. SPMB's main source of income was from the sales of The Star, which had grown over the years from a regional product to a national daily.

The firm had registered lower after tax profit in 1998 as compared to the previous year, and that had captured the shareholders' attention and sparked worries among them. So, they wanted the matter resolved soonest possible and it was later brought up to the attention of board of directors.

#### Annual General Meeting

"How could this happen? Why has the profit dipped this year as much as 25%? Where there any action taken to address the matter?" asked the shareholders one after another.

"Last year alone, the circulation had hit a record high of 200 000 copies daily. Apart from this, sales of advertisement contributed for most of its revenue and the advertisement revenue had dropped last," said Mr. Jimmy Choo, the Financial Controller, trying to explain the situation.

“The firm had registered considerable growth over the years in its after tax profit until 1997. However, last year’s drastic drop in its profitability level about 25%, was due to the economic woes in the country,” explained Mr. Jimmy Choo again.

“When, Malaysia fell victim in 1997 due to the economic turmoil in South East Asia, the newspaper industry was hit badly. Watan, a local Malay daily and also Cambodia Times, a foreign newspaper were among the newspaper firms that had ceased their operations, now. The phenomenon took everyone of us by surprise,” added Mr. Beng Huat, the General Manager.

“As a result, SPMB was not spared either, but the firm is still strong. However, the impact had brought down the firm’s profitability level. Two main causes that had been identified by the firm, namely the reduction in advertisement revenue and inflated raw material pricing attributed to higher exchange rate,” answered Mr. Jimmy Choo defending Mr. Beng Huat.

“The Star emerged as a market leader in 1987, ever since then it had never lost its position as a market leader. Over the past five years, the firm had experienced rapid growth in every aspect of sales, distribution, news coverage and even the staff strength. So, definitely we will be able to remain at the top and we assure you all that the efforts are being put in for it,” said Datuk Stephen Tan, the Managing Director relating to the economic situation.

“We know that great concern is required to correct the situation and that had probed the management to look into various strategies. So, we are looking into

possibilities that could be derived from the analysis,” explained the General Manager to the shareholders in the Annual General Meeting held last year.

He added “We are aware of the situation but we urge all of you to keep the faith in us and also the firm. We will resolve the matter soon.”

“You’re given exactly one year to proof yourselves to solve the issues, if you fail, then we will reshuffle the management line up or make drastic changes accordingly,” said one of the shareholders.

#### Monthly Budget Meeting

On the Monday afternoon of February 18, 1999, the Monthly Budget Meeting was held shortly after the Annual General Meeting. Mr Beng Huat, walked in 10 minutes later than the scheduled time for the meeting. The rest of the Heads of Department quickly took their seats as soon as they saw him walking in. It was very unusual of him to be late for meetings.

He looked up at the crowd from his chair and said, “Good afternoon and sorry to keep you all waiting.” He added on, “I do have some disturbing news from the board of directors.”

“Is it very bad?” asked Mr. Joe D’Silva, Business Development Manager.

“Apparently, yes, Joe” he replied. Then, he continued, “Major shareholders are getting impatient because they feel that we have not put in enough effort to resolve the problem.”

“ They also feel that the management has not invested considerable time and effort, and most importantly neglected the sense of urgency. The board of directors have urged the management to present a strategic plan by April 1999,” cited the General Manager sadly as he scratched his forehead.

“The three of us, tried our best to convince them,” he said referring to the Managing Director, Financial Controller and himself, relating to the previous Annual General Meeting.

“We didn’t have any options then. So, I told them that we would be able to make the changes and improve the situation within two years or we will have to face the repercussions. Well if that happens, then I may resign,” said Mr. Beng Huat.

“We will have to solve this problem by the end of 1999, or else you know ...the consequences. Well, don’t worry now. We still have our jobs and we will address them,” he said after a momentary silence.

Furthermore, I have also given my word to everyone at Annual General Meeting. So, I’m forming a task force, and a few of you will be part of this new assignment and I will hand out the letters personally, after the meeting,” he continued further.

“Therefore, I hope that everyone of you will take the matter seriously and contribute towards the firm’s success with enthusiasm as always. Anyhow, we

(referring to the task force) are meeting the board of directors next month, so we will discuss the matter in detail then,” he finally concluded.

## 1.2 Firm's Milestone

Star Publications (M) Bhd first published The Star, a daily English regional tabloid and Sunday Star, 27 years ago. It was printed at No 62, Weld Quay, Penang, in a rented three-storey building.

Former diplomat and entrepreneur, Mr. K.S. Choong was the first Managing Director and also Editor-In-Chief of the newspaper. He was the driving force behind the birth of Malaysia's first English language tabloid. In November 1974, Tuanku Abdul Rahman joined The Star's board of directors as a Chairman with Datuk Hussein Nordin as Deputy Chairman.

The first issue of The Star hit the streets on September 9, 1971, in Penang. In the early stages, circulation of The Star was concentrated in the north of Peninsula Malaysia. Later, The Star target market was expanded to other parts of the country.

In January 1976, The Star was relaunched as a national daily, with a second printing press set up in Kuala Lumpur. Two years later, its headquarters moved to Brickfields, Kuala Lumpur. In 1978, The Star had initiated the Starwalk in Penang. Starwalk<sup>1</sup> had since then become an annual event. This saw the involvement of The Star in community affairs and numerous events had since

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<sup>1</sup> Starwalk - An annual Walkathon event organised by The Star

been organised in areas as diverse as education, health, youth, sports and entertainment.

On 25 December 1981, The Star moved to its own premise at Section 13, Petaling Jaya. Its new printing plant, which had the capability of printing up to 45,000 copies per hour, was purchased and installed at a cost of RM 80 million. Then, the plans to computerise Editorial, Advertising and Accounting operations were formulated.

On 28th October 1987, The Star's publishing license was revoked following "*Operation Lallang*" because of sensitive publishing on detainees under ISA (**Internal Security Act**). According to the deputy news editor of The Star, Veera Pandiyan who had been with the firm for 16 years, The Star was granted its publishing and printing license after 149 days.

"Perhaps that was the turning point. Then, The Star took over as Malaysia's leading English daily with a rise in readership from 18.9% to 674,000 readers according to SRM<sup>2</sup> Media Index 1991", he said.

*The Star Online* joined the Internet fraternity and published on the World Wide Web (WWW). *The Star Online* created web pages that comprised of News, Business, Features and Sports. The Star had gone beyond its role of disseminating information through the print and electronic media. *The Star*

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<sup>2</sup> SRM - Survey Research Malaysia



*Online*, linked to the Internet was another product, and this proved that the firm had kept pace with the technology advancement.

As more and more pages were added to the paper, the paper was sectionalised for convenient handling and reading. *Section 2* was designed for feature stories, *Metro* for Klang Valley news; *Business* and *Weekender* were the first sections to be created. Then, came the *Education* section in the *Sunday Plus* and *Maritime* in *The Star*. Pullouts like *In Tech*, *Audiofile & AV*, *Clove* and *Connexions* were also added to this paper.

In 1995, the firm was listed on the main board of the KLSE<sup>3</sup> on 23<sup>rd</sup> November. SPMB's paid up capital was about RM 151 million, together with a bonus issue of RM 114 million and public issue of RM 27 million. A year later on September 9, the firm celebrated its 25<sup>th</sup> anniversary, which was held in Penang.

In 1997, *The Star* launched a three-month fund raising campaign - The North Korea Famine Relief Fund (SALL) in aid of the famine victims of North Korea. They managed to collect more than RM 10 million. A year after that in 1997, *Asiamoney*<sup>4</sup> awarded SPMB for being one of Malaysia's best new companies in the *Asiamoney Best Managed Companies Poll 1996*.

The firm set up a regional printing plant in Bukit Minyak, in the northern part of the Peninsula. The project took about nine months before completion, in September 1998.

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<sup>3</sup> KLSE - Kuala Lumpur Stock Exchange

## **2.0 FIRM'S BACKGROUND**

### **2.1 Management Structure**

SPMB had a flat organisation structure with only few levels of management hierarchy. The General Manager for non-editorial functions and Group Chief Editor for editorial functions as shown in Exhibit 1A, assisted the Managing Director in the firm's daily activities.

SPMB had a regional printing plant in Penang Island, which was headed by the Regional Director, other heads of department at the Penang Plant practised reporting and were also accountable to the HQ's head, as shown in Exhibit 2A.

### **2.2 Value System of the Firm**

Just like any other organisation, the Star had its own value system. Apart from this, the company had emphasised to maximise the stockholders returns and this had been proven based on net profit attributed to shareholders since 1995 after listing in Kuala Lumpur Stock Exchange.

The value depended very much on the culture, interest and maturity of the organisation itself. The activities and role performed by the organisation over the years, revealed that it had reached out to Malaysians in many areas, as diverse as education, health, environment, society, family values, national integration and even sports

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<sup>4</sup> Asiamoney - foreign based financial magazine

“Nonetheless, customer satisfaction had been the main prerogative, which had ensured the success of the Star. Therefore it will always remain as such.”

commented Ms. Iris Tan, the Marketing Manager. SPMB paid a lot of attention to their readers’ perception hence that ensured momentous commitment to reach customers satisfaction.

### 2.3 Mission Statement of the Firm

“The Star Publication (M) Bhd never had a formally written mission statement.

The firm had adapted to the typical Chinese way of doing business and had remained as such till the early 1990’s but the business orientation had changed to meet the evolving business trend”, said Mr. S.M. Rajah, the Senior Human Resources Manager who had been in the firm since 1971.

Hence, more attention and emphasis were given by the top management to ensure that The Star remained as the No. 1 leading English newspaper in the country. The mission statement was designed based on The Star’s core business focus and as well as the possible business ventures in future, taken into consideration the major role of the newspaper such as providing information, entertaining the society and lastly, educating the readers.

The Star – *the people’s paper* was committed to being the best newspaper in providing the latest and accurate news around the world with reliable and vital information service with the intention of educating and entertaining the Malaysian society.

It also recognised the importance of employees' welfare and satisfaction hence, ensured that such practices were maintained through the initiative and participation of both the employees and employer through various activities.

## **2.4 Scenario Planning**

SPMB was interested to develop scenario planning that will be focused on the media industry as a whole. The scenario planning was intended to bring the lime light of the Malaysian society in the year 2009.

The corporate planners came out with several plans for the top management. The new approach taken in consideration of the scenario planning made SPMB planners more enlightened to view the perspective with wider vision.

Some of the firm's prerogative was to: -

- (a) Deliver the newspapers to the streets by 6.30-a.m. daily
- (b) Disseminate information/ news in English, and Bahasa Melayu
- (c) Educate the Malaysian society
- (d) Entertain the consumers

## **2.5 Firm's Financial Position**

SPMB had remained profitable for the last five years (refer to Appendix 1A - Financial Statements) even when the country's economy was showing negative growth rate. In 1998, however the firm had posted lower after tax profit, about 25% lower compared to the previous year.

The growth of the firm was above 20% yearly until 1998 when it registered a negative growth. Therefore, the return on investment and EPS also followed the trend after 1997. Furthermore, the firm had kept low gearing ratio (leverage).

“SPMB had also gathered a substantial amount of retained earnings, RM 200 million over the years. Our cash flows are also good. So, we should not have much trouble elevating ourselves.” said Mr. Kevin, the accountant, looking at the past five years financial statements.

### **3.0 MARKETING SITUATION**

#### **3.1 Product - The Star**

The Star came in a tabloid form of 15.5" x 11.5" versus the News Strait Times a broadsheet format (twice the size of a tabloid). Some readers had claimed that the size advantage of tabloid gave them convenience of reading and flipping the pages easily especially in light rail transit, buses, or even in taxis.

The contents of The Star comprised four main sections (refer to Appendix 4A – Product Characteristics), which were known as Main Paper, Section 2, Business, and Metro (for Klang Valley edition) or North (for Penang, Kedah and also Perlis edition). In addition to, this there was other weekly or monthly pullouts or pre-prints such as Weekender, Education, Sunday Plus, Maritime, In Tech, Audiofile & AV, Clove and lastly Connexions.

As the readers' expectation, satisfaction and preference to the newspaper changed, The Star coped to meet customer satisfaction. Over the years, the company adopted several measures to make changes and keep pace with the development worldwide.

Investment in the latest technology, graphics and colour production resulted in colourful, attractive prints, which were considered the unique factors attributed to the selling point for the tabloid. The editorial strategy of The Star was to present a mix of news relevant to readers in an accessible, lively and a stylish manner. Pictures and graphics were added to develop readers' enthusiasm for breakfast reading or during breaks.

According to the News Editor Wong Chun Wai, The Star's tagline ***The People's Paper***, marked the testimony and commitment that had appeased the readers' needs in every direction. He said that the paper averaged about 180 pages daily.

"At times, during seasonal advertising fluctuations, the newspaper has hit a record high of 256 pages on the peak period as opposed to bad time as little as 88 pages," he continued.

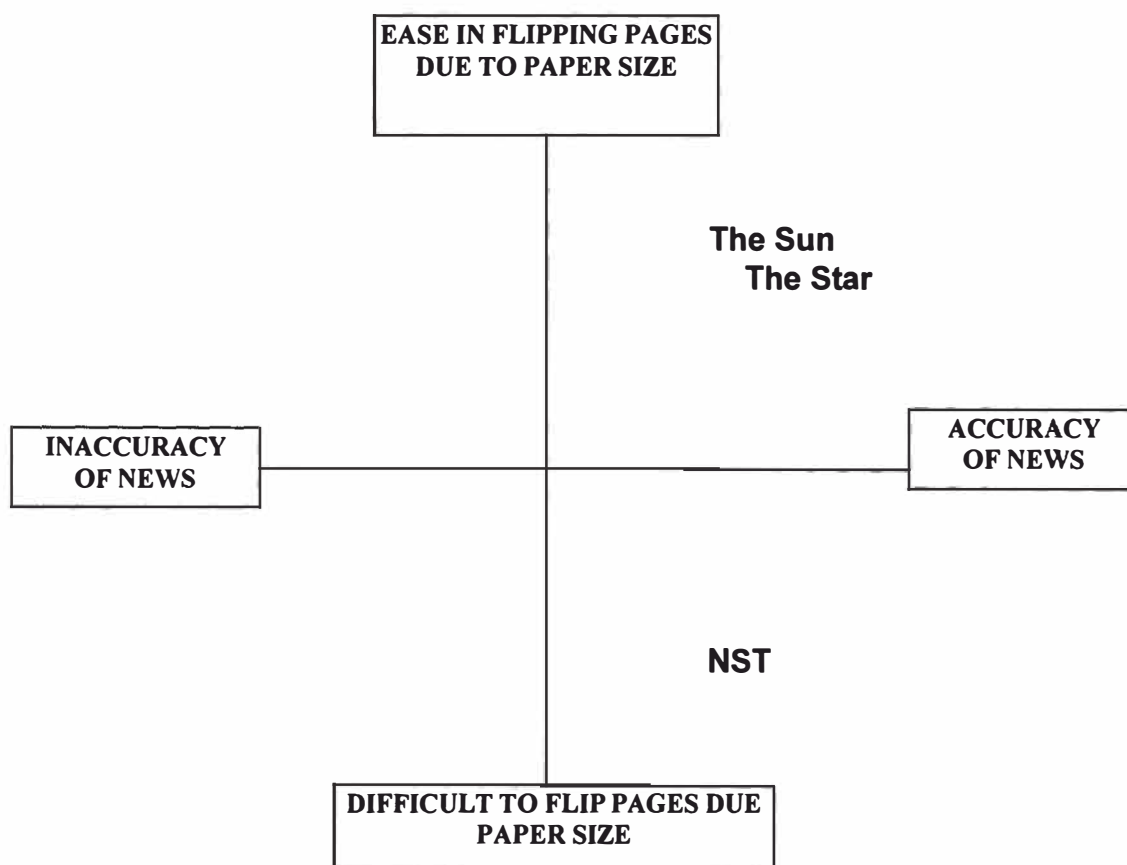
The high demand in pagination and more full colours and spot colour from the advertisers and editorial often ***heated up*** the scene in the Production department, as to how to cope with such demands which was beyond their technological capabilities.

Tabloids often found the right formula for sustaining and getting readership interest. However, unless newspaper kept up with news reporting trends, they faced losing their hard won readers.

### 3.2 Product Perception

The Marketing Department of The Star did the perceptual mapping on the three major English dailies, as shown in Chart 1A. The Star and The Sun were positioned to be accurate in their reporting and also provide ease of reading to their subscribers. Readers perceived the same about News Strait Times (NST) but claimed that it did not provide such convenience like the tabloids. However, The Edge, or The Malay Mail were not included in the mapping.

The key elements that were recognised to be the order winning criteria in any newspaper were neutrality in reporting and accuracy of the news reported. The reader's perception on The Star layout format was "very clustered" with advertisements, so much so that some say that they saw more advertisements than news.



Source: Internal Source – Marketing Service Department (MSD)

**Chart 1A: Readers Perceptual Mapping**



“Consequently, that led The Star to address these issues as early as possible in dealing with reader’s complaint, making them accessible and yet sensitive to the reader’s reasonable demand and attention to be competitive,” explained Ms. Iris Tan.

“So, the company had to seek solutions to maintain its competitiveness in future. This is done through in house market survey and market development, but we also taken into consideration changes happening globally,” added Mr. Alan, a Senior Marketing Executive.

### **3.3 Cover Price**

The Star and NST were priced at RM1.00 per copy in Peninsula Malaysia, while The Sun was priced at 80 cents per copy but, The Edge was sold at a premium price of RM3.20 per copy. Although, a lower price strategy was vulnerable to capture a bigger market share, especially from the lower income group, many publishers felt that the production costs should determine the cover price of the newspaper. However, the nature of the product forbade the increase of the cover price.

The Production Manager of The Star Publications once quoted that *the cost of goods* to produce 180 pages of a product comes up easily to RM2.00. He also added “We obtain 80 cents per copy from the vendors. If we don’t make up the deficit in advertising revenue, then we are looking at net loss. Oddly, enough, print is not a business where economics of scale operates. Newsprint costs do not lessen as we use more.” he observed.